

**THE OFFICE OF REGULATORY
STAFF DIRECT TESTIMONY &
EXHIBITS OF
ZACHARY J. PAYNE
OCTOBER 12, 2018**



**DOCKET NO. 2018-5-G
ANNUAL REVIEW OF PURCHASED GAS
ADJUSTMENT AND GAS PURCHASING POLICIES
OF SOUTH CAROLINA ELECTRIC & GAS
COMPANY**

DIRECT TESTIMONY AND EXHIBITS OF
ZACHARY J. PAYNE
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2018-5-G
IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND
GAS PURCHASING POLICIES OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Zachary J. Payne. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Audit Department as a Senior Auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a double major in Accounting and Economics from the University of South Carolina in May 2013. I began employment with ORS in March 2015 and since have worked on cases dealing with the regulation of nuclear waste, natural gas, water and wastewater companies.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present ORS Audit Department’s findings and recommendations resulting from our examination of the South Carolina Electric & Gas

Company's ("SCE&G" or the "Company") Purchased Gas Adjustment ("PGA") for the year ended July 31, 2018 ("review period"). In Docket No. 87-426-G, Order No. 87-898, dated August 14, 1987, the Public Service Commission of South Carolina ("Commission") instituted an annual examination of the PGA and Gas Purchasing Policies of the Company. In accordance with the above referenced Order, ORS Audit Staff examined the Company's PGA for the review period.

Q. WHAT ARE THE MOST RECENT COST OF GAS FACTORS FILED WITH THIS COMMISSION?

A. In PGA Docket No. 2006-5-G, Order No. 2006-679, dated November 13, 2006, the Company was authorized to adjust its cost of gas factors on a monthly basis for a "material difference" defined as \$0.01, or more, per therm in any cost of gas factor beginning with the first billing cycle of each month. In Docket No. 2009-5-G, Order No. 2009-910, dated December 29, 2009, the amount designated as a "material difference" was increased to an amount greater than \$0.04 per therm. During the review period the company's Demand Cost of Gas factors ("DCOG") and Commodity Cost of Gas factors ("CCOG") were adjusted during the months of October 2017 and February and June 2018. The Company's beginning and ending DCOG and CCOG during the review period were as listed below:

<u>DCOG Per Therm</u>	<u>As of August 1, 2017</u>	<u>As of July 31, 2018</u>
Residential	\$0.21077	\$0.29320
Small/Med. General Service	\$0.14045	\$0.18178
Large General Service	\$0.18859	\$0.26057
<u>CCOG Per Therm</u>	\$0.38885	\$0.29678

1 **Q. DID ORS CONDUCT AN EXAMINATION OF THE COMPANY'S PGA**
2 **(OVER)/UNDER COLLECTION CALCULATIONS?**

3 **A.** Yes. ORS examined the Company's cumulative PGA (over)/under collection
4 calculations for the review period and traced amounts to the books and records of the
5 Company.

6 **Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE, OR**
7 **CAUSE TO BE PREPARED, CERTAIN EXHIBITS?**

8 **A.** Yes. Audit Exhibit ZJP-1 through Audit Exhibit ZJP-3 are attached to my
9 testimony.

10 **Q. WHAT IS INCLUDED IN AUDIT EXHIBIT ZJP-1, PURCHASED GAS**
11 **ADJUSTMENT (OVER)/UNDER COLLECTION?**

12 **A.** Audit Exhibit ZJP-1 presents, for each month of the review period, the
13 components which comprise the cumulative PGA (over)/under collection. These
14 Components are:

15 **Commodity (Over)/Under Collection** – These amounts represent the difference in the
16 Company's actual firm commodity costs, on a monthly basis, compared to the firm
17 commodity benchmark PGA filings during the review period. The commodity
18 (over)/under collection for the review period decreased the under-collection by \$195,997.

19 **Demand (Over)/Under Collection** – These amounts represent the difference in the
20 actual demand charges incurred by the Company as compared to demand charges billed
21 and collected from customers. The demand (over)/under collection for the review period
22 decreased the under-collection by \$10,090,382.

1 **Uncollectibles – Commodity Only** – In Order No. 2006-679 dated November 13, 2006,
2 issued in Docket No. 2006-5-G, the Company was authorized to recover its uncollectible
3 gas costs through the commodity cost of gas, beginning with the first billing cycle in
4 November 2007. This process allows the Company to recover the correct amount of
5 uncollectible gas cost expense that it has actually incurred. Uncollectible gas cost
6 expense for the review period increased the under-collection by \$179,085.

7 **Unbilled Revenue Adjustments** – In compliance with Order No. 2009-910 dated
8 December 29, 2009, issued in Docket No. 2009-5-G, the Company converted the PGA
9 administration process from a cycle-month sales calculation basis to a calendar month
10 sales calculation basis. This process is more effective and precise in matching calendar
11 month gas costs with the sales of that month's gas. Unbilled revenue adjustments were
12 applied to the demand component of the cost of gas factor. The net unbilled revenue
13 adjustment for the review period increased the under-collection by \$131,630.

14 **Interest/Carrying Cost** – In accordance with Order No. 2006-679, carrying cost is
15 computed using the rate of interest, as of the first day of each month, for 10-year U.S.
16 Government Treasury Bills plus an all-in spread of 65 basis points, not to exceed 6% and
17 shall not be applied to (over)/under collection balances in excess of \$20 million. The
18 computed carrying costs for the review period increased the under-collection by
19 \$236,009. The interest rates used to calculate carrying costs during the review period
20 have been verified to those in the Wall Street Journal on the first published day of each
21 month.

22 **Q. WHAT IS INCLUDED IN AUDIT EXHIBIT ZJP-2, INTERSTATE STORAGE**
23 **INVENTORY ACTIVITY?**

1 **A.** Audit Exhibit ZJP-2 shows the detail of gas held in interstate pipeline storage
2 facilities during the review period. ORS has verified injections and withdrawals, by
3 month, for each of the storage facilities on the Southern and Transco interstate pipelines.
4 The Southern system's Contract Storage Service ("CSS") has two facilities: Muldon,
5 located in Prairie County, Mississippi and Bear Creek, located in Bienville Parish,
6 Louisiana. The Transco system has four facilities: General Storage Service ("GSS")
7 located in Potter and Clinton counties, Pennsylvania; Eminence Storage Service ("ESS")
8 located in Covington County, Mississippi; a Liquefied Natural Gas Storage Service
9 ("LG-A") located in Carlstadt, New Jersey; and Washington Storage Service ("WSS")
10 located in St. Landry Parish, Louisiana. For the review period, total storage injections
11 were 4,960,566 dekatherms at a total cost of \$14,828,597 which converts to a weighted
12 average injection rate of \$2.99 per dekatherm. Withdrawals totaled 5,795,046
13 dekatherms at a total cost of \$17,855,297 which converts to a weighted average
14 withdrawal rate of \$3.08 per dekatherm. Total interstate pipeline storage inventory at
15 July 31, 2018 equaled 3,377,560 dekatherms with a total cost of \$10,206,354 or weighted
16 average cost of \$3.02 per dekatherm.

17 **Q. WHAT IS INCLUDED IN AUDIT EXHIBIT ZJP-3, LNG INVENTORY**
18 **ACTIVITY?**

19 **A.** Audit Exhibit ZJP-3 details, by month, total Liquefied Natural Gas ("LNG")
20 inventory activities for the Company's Salley and Bushy Park facilities. ORS has
21 verified these inventories to the books and records of the Company. This exhibit
22 summarizes all the activity affecting LNG inventory including boil-off, vaporization,
23 liquefaction, additional supply trucked in to Salley, derime gas, gas lost to atmosphere,

1 volume adjustments, and direct costs capitalized. Capitalized costs at both facilities
2 consist mostly of expenses associated with the liquefaction capability at the Bushy Park
3 facility. LNG inventory on July 31, 2018 totaled 1,062,547 dekatherms at a total cost of
4 \$4,418,836 or a weighted average rate of \$4.16.

5 **Q. WHAT IS THE STATUS OF THE COMPANY'S HEDGING PROGRAM?**

6 **A.** Commission Order No. 2012-39 issued January 12, 2012, ordered that SCE&G's
7 hedging program be suspended effective on the date of the order. The last of the
8 Company's outstanding hedges settled on January 10, 2013.

9 **Q. WHAT ARE ORS'S FINDINGS REGARDING THE COMPANY'S PGA**
10 **(OVER)/UNDER COLLECTION?**

11 **A.** Based on our examination, it is the opinion of ORS that the Company's PGA
12 under-collection at July 31, 2018 of \$6,413,145, shown on Company Witness Elliott's
13 Exhibit No. ____ (RRE-1), is accurately stated.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A.** Yes, it does.

SOUTH CAROLINA ELECTRIC AND GAS COMPANY - DOCKET NO. 2018-5-G
PURCHASED GAS ADJUSTMENT (OVER)/UNDER COLLECTION
FOR THE TWELVE MONTHS ENDED JULY 31, 2018

	2017						2018						Total
	August	September	October	November	December	January	February	March	April	May	June	July	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Beginning Balance	16,152,786	17,396,318	18,935,230	19,413,416	16,923,302	10,526,835	1,771,880	1,415,550	(1,677,307)	(1,495,280)	471,782	3,369,748	
Commodity (Over)/Under Collection	(986,888)	(874,472)	762,354	2,383,596	3,818,517	3,305,784	(4,551,707)	1,147,127	(3,293,424)	(1,543,457)	(278,258)	(85,169)	(195,997)
Demand (Over)/Under Collection	2,194,322	2,359,938	1,424,036	(47,006)	(4,928,899)	(12,190,822)	(5,228,378)	(1,062,933)	(354,844)	1,912,297	2,777,547	3,054,360	(10,090,382)
Uncollectibles-Commodity Only	11,364	4,179	(2,162)	(3,759)	625	(483)	3,265	15,504	31,686	44,914	37,991	35,961	179,085
Unbilled Revenue Adjustment	(15,359)	2,392	(1,754,841)	(4,866,088)	(5,313,476)	125,601	9,416,350	(3,187,829)	3,803,064	1,551,946	350,895	18,975	131,630
Ending Balance Before Interest	17,356,225	18,888,355	19,364,617	16,880,159	10,500,069	1,766,915	1,411,410	(1,672,581)	(1,490,825)	470,420	3,359,957	6,393,875	
Interest/Carrying Cost	40,093	46,875	48,799	43,143	26,766	4,965	4,140	(4,726)	(4,455)	1,362	9,791	19,256	236,009
Ending Balance	17,396,318	18,935,230	19,413,416	16,923,302	10,526,835	1,771,880	1,415,550	(1,677,307)	(1,495,280)	471,782	3,369,748	6,413,131	
Interest Rate	2.772%	2.978%	3.024%	3.067%	3.059%	3.372%	3.520%	3.391%	3.586%	3.474%	3.497%	3.614%	
Purchased Gas Adjustment (Over)/Under Collection as of 7/31/18												\$ 6,413,131	

SOUTH CAROLINA ELECTRIC AND GAS COMPANY - DOCKET NO. 2018-5-G
INTERSTATE STORAGE INVENTORY ACTIVITY
FOR THE TWELVE MONTHS ENDED JULY 31, 2018

TOTAL INTERSTATE PIPELINE STORAGE

	Injections		Withdrawals		Balance	
	DT's #	Price \$	Amount \$	DT's #	Price \$	Amount \$
Beg. Bal.				4,212,040		13,233,054
Aug-17	385,464	3.02750	1,166,992	4,543,458		3.14172
Sep-17	225,713	3.03196	684,352	4,679,116		3.13266
Oct-17	127,465	2.98604	380,616	4,696,980		3.12866
Nov-17	213,556	2.77413	592,433	3,926,236		3.12579
Dec-17	355,157	3.01101	1,069,380	3,433,233		3.11906
Jan-18	608,423	3.06829	1,866,818	2,608,817		3.11635
Feb-18	482,922	3.60240	1,739,676	2,686,513		3.13548
Mar-18	366,188	2.65656	972,800	2,006,603		3.23291
Apr-18	367,991	2.73050	1,004,800	1,905,264		3.15821
May-18	612,088	2.84680	1,742,490	2,363,397		3.10055
Jun-18	605,082	2.92444	1,769,527	2,856,243		3.04164
Jul-18	610,517	3.01173	1,838,713	3,377,560		3.02115
	4,960,566	2.98930	14,828,597			3.02181

Total Interstate Pipeline Storage as of 7/31/18

3,377,560 10,206,354 3,02181

SOUTH CAROLINA ELECTRIC AND GAS COMPANY - DOCKET NO. 2018-5-G
LNG INVENTORY ACTIVITY
FOR THE TWELVE MONTHS ENDED JULY 31, 2018

TOTAL LNG STORAGE												
	Boil-off			Vaporization			Liquefaction			Trucked in to Salley		
	DT's	Rate	Amount	DT's	Rate	Amount	DT's	Rate	Amount	DT's	Rate	Amount
	#	\$	\$	#	\$	\$	#	\$	\$	#	\$	\$
Aug-17	(54,057)	4.168137	(225,317)	0	0.000000	0	207,675	2.879798	598,062	39,458	11.997263	473,388
Sep-17	(37,563)	4.462876	(167,639)	0	0.000000	0	107,735	2.880299	310,309	46,927	12.092015	567,442
Oct-17	(36,767)	4.390187	(161,414)	(809)	4.390606	(3,552)	0	0.000000	0	16,942	11.933833	202,183
Nov-17	(31,592)	4.460433	(140,914)	0	0.000000	0	0	0.000000	0	0	0.000000	0
Dec-17	(31,775)	4.471755	(142,090)	(148,156)	4.471759	(662,518)	0	0.000000	0	0	0.000000	0
Jan-18	(28,133)	4.484733	(126,169)	(1,075,933)	4.484720	(4,825,258)	0	0.000000	0	0	0.000000	0
Feb-18	(27,242)	4.590008	(125,041)	(1,769)	4.590164	(8,120)	0	0.000000	0	0	0.000000	0
Mar-18	(33,451)	4.591492	(153,590)	0	0.000000	0	114,197	2.556039	291,892	0	0.000000	0
Apr-18	(43,477)	4.227523	(183,800)	0	0.000000	0	183,556	2.648200	486,093	0	0.000000	0
May-18	(46,462)	4.171043	(193,795)	0	0.000000	0	85,634	2.757398	236,127	0	0.000000	0
Jun-18	(50,340)	4.551470	(229,121)	0	0.000000	0	203,255	2.832900	575,801	0	0.000000	0
Jul-18	(50,791)	4.415369	(224,261)	0	0.000000	0	210,236	2.915100	612,859	0	0.000000	0
Totals	(471,650)	4.395528	(2,073,151)	(1,226,667)	4.483244	(5,499,448)	1,112,288	2.797066	3,111,143	103,327	12.029895	1,243,013

Derime Gas					Gas Lost To Atmosphere			Volume Adjustment			Direct Costs	
					DT's	Rate	Amount	DT's	Rate	Amount	Capitalized	
					#	\$	\$	#	\$	\$	Amount	\$
Beg. Bal.												
Aug-17	0				0	0.000000	0	0	0.000000	0	478,013	
Sep-17	0				0	0.000000	0	0	0.000000	0	(324,096)	
Oct-17	0				(293)	4.389078	(1,286)	(21,993)	4.390215	(96,554)	1,140	
Nov-17	0				(300)	4.460000	(1,338)	0	0.000000	0	20,474	
Dec-17	0				(217)	4.470046	(970)	0	0.000000	0	21,047	
Jan-18	0				0	0.000000	0	0	0.000000	0	54,768	
Feb-18	0				0	0.000000	0	0	0.000000	0	726	
Mar-18	(999)				0	0.000000	0	0	0.000000	0	20,052	
Apr-18	0				0	0.000000	0	0	0.000000	0	249,738	
May-18	0				0	0.000000	0	0	0.000000	0	406,448	
Jun-18	0				0	0.000000	0	0	0.000000	0	226,394	
Jul-18	0				0	0.000000	0	0	0.000000	0	42,712	
Totals	(999)				(810)	4.437037	(3,594)	(21,993)	4.390215	(96,554)	1,197,416	

Ending Balance			
DT's	Rate	Amount	
#	\$	\$	\$
1,569,051	4.168132	6,540,011	
1,762,127	4.462878	7,864,157	
1,879,226	4.390197	8,250,173	
1,836,306	4.460417	8,190,690	
1,804,414	4.471763	8,068,912	
1,624,266	4.484722	7,284,381	
520,200	4.590008	2,387,722	
491,189	4.591485	2,255,287	
570,936	4.227516	2,413,641	
711,015	4.171040	2,965,672	
750,187	4.551468	3,414,452	
903,102	4.415366	3,987,526	
1,062,547	4.158721	4,418,836	

Total LNG Storage as of 7/31/18			
1,062,547	4.158721	4,418,836	